

**METROPOLITAN WATER DISTRICT OF SALT LAKE
& SANDY**

FINANCIAL STATEMENTS

June 30, 2005 and 2004

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WISAN, SMITH, RACKER & PRESCOTT, LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

**To the Board of Trustees
Metropolitan Water District of Salt Lake & Sandy**

We have audited the accompanying basic financial statements of the Metropolitan Water District of Salt Lake & Sandy (the "District") as of June 30, 2005, and for the year then ended, listed in the foregoing table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the District as of June 30, 2004 were audited by other auditors whose report dated August 27, 2004 expressed an unqualified opinion on those statements. We did not audit the financial statements of the Provo River Water Users Association (the "Association"), the District's investment in which is accounted for by use of the equity method. The District's equity of \$18,580,136 in the Association's net assets at June 30, 2005 is included in the accompanying financial statements. The financial statements of the Association as of October 31, 2004 and for the year then ended were audited by other auditors whose report has been furnished to us, and our opinion insofar as it relates to the amounts included for the Association, is based solely on the report of such other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based upon our audit and the reports of other auditors, such basic financial statements referred to above present fairly, in all material respects, the financial position of the Metropolitan Water District of Salt Lake & Sandy as of June 30, 2005 and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis listed in the table of contents is not a required part of the basic financial statements, but is supplementary information required by Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 22, 2005, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Wisan Smith Racker & Prescott, LLP

Salt Lake City, Utah
August 22, 2005

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METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY

Management's Discussion and Analysis (Unaudited)

As management of the Metropolitan Water District of Salt Lake & Sandy (the "District") we present to the reader of our financial statements this discussion and analysis of the District's financial performance for the fiscal years ended June 30, 2005 and 2004.

Overview of the Financial Statements

The District's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States, promulgated by the Governmental Accounting Standards Board ("GASB"). The District reports as a single enterprise fund. Revenues are recognized when earned and expenses are recognized in the period in which they are incurred. See the notes to the financial statements for a summary of the District's significant accounting policies.

| Net Assets | | | |
|---|-----------------------|-----------------------|-----------------------|
| Assets | 2005 | 2004 | 2003 |
| Current and other assets | \$ 61,375,156 | \$ 49,276,439 | \$ 47,615,017 |
| Restricted assets | 111,880,314 | 89,999,834 | 17,613,716 |
| Capital assets | <u>196,310,459</u> | <u>130,758,439</u> | <u>107,886,680</u> |
| Total assets | <u>\$ 369,565,929</u> | <u>\$ 270,034,712</u> | <u>\$ 173,115,413</u> |
| Liabilities | | | |
| Current liabilities | \$ 24,428,572 | \$ 11,848,044 | \$ 8,770,603 |
| Long-term obligations, less current maturities | <u>235,364,469</u> | <u>153,906,171</u> | <u>60,645,834</u> |
| Total liabilities | <u>\$ 259,793,041</u> | <u>\$ 165,754,215</u> | <u>\$ 69,416,437</u> |
| Net Assets | | | |
| Invested in capital assets, net of related debt | \$ 55,474,303 | \$ 71,672,283 | \$ 50,854,255 |
| Restricted for debt service | 5,870,380 | 3,114,164 | 1,988,898 |
| Unrestricted | <u>48,428,205</u> | <u>29,494,050</u> | <u>50,855,823</u> |
| Total net assets | <u>\$ 109,772,888</u> | <u>\$ 104,280,497</u> | <u>\$ 103,698,976</u> |

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY

Management's Discussion and Analysis (Unaudited)

Financial Analysis

The decrease in unrestricted current assets of approximately \$4.0 million (15%) as compared to 2004 can mainly be attributed to a decrease in accounts receivable due to lower water sales and a decrease in cash reserves due to the use of funds to make bond payments. Other assets showed an increase of approximately \$16 Million (87%). This increase can be attributed to long-term receivables from Sandy City totaling almost \$16 million and the remainder represents bond issuance costs resulting from the 2005 bond issue.

The increase of approximately \$22 million (24%) in restricted assets at 2005 as compared to 2004 represents bond proceeds from the 2005 bond issue less the decrease in bond proceeds from the 2004 bonds.

The increase of approximately \$66 million (50%) in capital assets at 2005 as compared to 2004 is due to the commencement and continuation of various master plan projects during the year which are funded by bond proceeds.

The increase of approximately \$13 million (106%) in current liabilities at 2005 as compared to 2004 is mainly due to a significant amount of accrued contractor and engineering invoices related to the master plan projects and an increase in bond interest payable due to additional bond debt.

The increase of approximately \$81 million (53%) in long-term debt at 2005 as compared to 2004 is due to the January, 2005 bond issue.

Changes in Net Assets

| | 2005 | 2004 | 2003 |
|--|-----------------------|-----------------------|-----------------------|
| Operating revenues | \$ 7,519,169 | \$ 9,974,971 | \$ 8,301,080 |
| Operating expenses | <u>(13,385,337)</u> | <u>(12,893,811)</u> | <u>(12,383,765)</u> |
| Operating loss | (5,866,168) | (2,918,840) | (4,082,685) |
| Non-operating revenues, net | 14,447,146 | 5,154,003 | 4,758,014 |
| Non-operating expenses - interest | <u>(4,038,587)</u> | <u>(2,673,642)</u> | <u>(1,614,424)</u> |
| Income (loss) before capital contributions | 4,542,391 | (438,479) | (939,095) |
| Capital contributions | <u>950,000</u> | <u>1,020,000</u> | <u>115,000</u> |
| Change in net assets | 5,492,391 | 581,521 | (824,095) |
| Total net assets: | | | |
| Beginning of year | <u>104,280,497</u> | <u>103,698,976</u> | <u>104,523,071</u> |
| End of year | <u>\$ 109,772,888</u> | <u>\$ 104,280,497</u> | <u>\$ 103,698,976</u> |

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY

Management's Discussion and Analysis (Unaudited)

Summary of Revenues

| | 2005 | 2004 | 2003 |
|---|----------------------|----------------------|----------------------|
| Operating: | | | |
| Water sales | \$ 7,507,241 | \$ 9,938,373 | \$ 8,262,505 |
| Water treatment | 4,440 | 23,100 | 12,090 |
| Aqueduct capacity rentals | 7,488 | 13,498 | 26,485 |
| Total operating | <u>7,519,169</u> | <u>9,974,971</u> | <u>8,301,080</u> |
| Non-operating: | | | |
| Property tax revenues | 4,769,947 | 4,670,473 | 4,374,908 |
| Special assessment revenue | 6,489,937 | - | - |
| Interest income | 2,899,979 | 720,503 | 486,684 |
| Laboratory fees | 12,732 | 12,668 | 12,997 |
| Equity in income of Provo River Water Users Association | 152,270 | (41,885) | 206,391 |
| Gain (loss) on sale of assets | 89,666 | (360,826) | (442,493) |
| Other | 32,615 | 153,070 | 119,527 |
| Total non-operating | <u>14,447,146</u> | <u>5,154,003</u> | <u>4,758,014</u> |
| Capital contributions | <u>950,000</u> | <u>1,020,000</u> | <u>115,000</u> |
| Total revenues | <u>\$ 22,916,315</u> | <u>\$ 16,148,974</u> | <u>\$ 13,174,094</u> |

The decrease of approximately \$2.4 million (24%) in operating revenues during 2005 as compared to 2004 is due to the decrease in water sales to both Salt Lake City and Sandy City. Total water delivered in 2005 was 51,368 acre-feet as compared to 67,584 acre-feet in 2004. This represents a decrease of 16,216 acre-feet or 24%.

The increase of approximately \$9.3 million (180%) in non-operating revenue during 2005 as compared to 2004 can be attributed to special assessment revenue from the District's member cities and an increase in interest income.

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY

Management's Discussion and Analysis (Unaudited)

Summary of Expenses

| | 2005 | 2004 | 2003 |
|----------------------------------|----------------------|----------------------|----------------------|
| Operating: | | | |
| Direct | \$ 6,300,947 | \$ 4,928,204 | \$ 5,137,873 |
| General and administrative | 2,284,586 | 2,973,153 | 2,628,386 |
| Depreciation and amortization | <u>4,799,804</u> | <u>4,992,454</u> | <u>4,617,506</u> |
| Total operating expenses | 13,385,337 | 12,893,811 | 12,383,765 |
| Non-operating expense - interest | <u>4,038,587</u> | <u>2,673,642</u> | <u>1,614,424</u> |
| Total | <u>\$ 17,423,924</u> | <u>\$ 15,567,453</u> | <u>\$ 13,998,189</u> |

The increase of approximately \$492,000 (4%) in operating expenses during 2005 as compared to 2004 is mainly due to the increase in treatment costs incurred at the Jordan Valley Water Treatment Plant.

Capital Asset Activity

During 2005, the District expended approximately \$63.8 million on master plan projects. Some of the more significant expenditures were \$14.3 million for the Little Cottonwood Water Treatment Plant expansion project and on-site improvements, \$15.5 million for the Point of the Mountain Water Treatment Plant, \$9.3 million for Point of the Mountain Aqueduct, \$4.1 million for Point of the Mountain raw water pond and facilities, \$4.0 million for Point of the Mountain finished water reservoir and \$5.1 million for Point of the Mountain pump station.

Debt Administration

During 2005, the District issued revenue bonds totaling approximately \$82 million to continue the funding of the various master plan projects and to purchase water rights in the Ontario Drain Tunnel.

Requests for Information

This financial report is designed to give its readers a general overview of the District's finances. Questions regarding any information contained in this report or requests for additional information should be addressed to the Controller, 3430 East Danish Road, Sandy, Utah 84093.

2005

2004

\$ 13,609,920
3,610,407
4,172,400

\$ 4,130,898
2,182,647
4,123,654

TIES

175,845
2,860,000
24,428,572

175,845
1,235,000
11,848,044

TIES

5,972,698
3,946,771
225,445,000
235,364,469

3,223,729
4,127,442
146,555,000
153,906,171

TIES

259,793,041

165,754,215

ETS

55,474,303
5,870,380
48,428,205
109,772,888

71,672,283
3,114,164
29,494,050
104,280,497

ETS

\$ 369,565,929

\$ 270,034,712

METROPOLITAN WATER DISTRICT
STATEMENT
June 30,

| | <u>2005</u> | <u>2004</u> |
|--|------------------------------|------------------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 14,776,979 | \$ 18,532,198 |
| Restricted cash and cash equivalents | 111,880,314 | 89,999,834 |
| Receivables: | | |
| Accounts receivable, net | 3,004,150 | 3,473,838 |
| Notes receivable - Sandy City | 475,282 | - |
| Property tax receivable | <u>4,321,704</u> | <u>4,198,949</u> |
| | 7,801,136 | 7,672,787 |
| Prepaid administrative fee and insurance | 374,843 | 713,366 |
| Supplies inventories | <u>84,728</u> | <u>90,588</u> |
| TOTAL CURRENT ASSETS | 134,918,000 | 117,008,773 |
| CAPITAL ASSETS, NET | 196,310,459 | 130,758,439 |
| OTHER ASSETS | | |
| Notes receivable - Sandy City | 15,967,485 | - |
| Provo River Water Users Association | 18,580,136 | 18,518,635 |
| Other | <u>11,090</u> | <u>11,090</u> |
| TOTAL OTHER ASSETS | 34,558,711 | 18,529,725 |
| BOND ISSUE COSTS, NET | 3,778,759 | 3,737,775 |
| TOTAL ASSETS | <u>\$ 369,565,929</u> | <u>\$ 270,034,712</u> |

The accompanying notes are an integral part of the financial statements.

TRICT OF SALT LAKE & SANDY
OF NET ASSETS
05 and 2004

| | <u>2005</u> | <u>2004</u> |
|--|------------------------------|------------------------------|
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts payable including amounts retained on construction contracts of \$2,471,802 and \$0, respectively | \$ 13,609,920 | \$ 4,130,898 |
| Accrued expenses | 3,610,407 | 2,182,647 |
| Deferred revenue | 4,172,400 | 4,123,654 |
| Current portion of long-term liabilities: | | |
| Provo River Water Users Association | 175,845 | 175,845 |
| Revenue bonds payable | <u>2,860,000</u> | <u>1,235,000</u> |
| TOTAL CURRENT LIABILITIES | 24,428,572 | 11,848,044 |
| NON-CURRENT LIABILITIES | | |
| Unamortized bond premiums | 5,972,698 | 3,223,729 |
| Provo River Water Users Association | 3,946,771 | 4,127,442 |
| Revenue bonds payable | <u>225,445,000</u> | <u>146,555,000</u> |
| TOTAL NON-CURRENT LIABILITIES | <u>235,364,469</u> | <u>153,906,171</u> |
| TOTAL LIABILITIES | 259,793,041 | 165,754,215 |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | 55,474,303 | 71,672,283 |
| Restricted for debt service | 5,870,380 | 3,114,164 |
| Unrestricted | <u>48,428,205</u> | <u>29,494,050</u> |
| TOTAL NET ASSETS | <u>109,772,888</u> | <u>104,280,497</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 369,565,929</u> | <u>\$ 270,034,712</u> |

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Years ended June 30, 2005 and 2004

| | <u>2005</u> | <u>2004</u> |
|--|------------------------------|------------------------------|
| OPERATING REVENUES | | |
| Water sales | \$ 7,507,241 | \$ 9,938,373 |
| Water treatment | 4,440 | 23,100 |
| Aqueduct capacity rentals | 7,488 | 13,498 |
| TOTAL OPERATING REVENUES | <u>7,519,169</u> | <u>9,974,971</u> |
| OPERATING EXPENSES | | |
| Cost of sales and services | 6,300,947 | 4,928,204 |
| General and administrative | 2,284,586 | 2,973,153 |
| Depreciation and amortization | 4,799,804 | 4,992,454 |
| TOTAL OPERATING EXPENSES | <u>13,385,337</u> | <u>12,893,811</u> |
| OPERATING LOSS | (5,866,168) | (2,918,840) |
| NON-OPERATING REVENUES (EXPENSES) | | |
| Property tax revenues | 4,769,947 | 4,670,473 |
| Special assessment revenue | 6,489,937 | - |
| Interest income | 2,899,979 | 720,503 |
| Interest expense | (4,038,587) | (2,673,642) |
| Laboratory fees | 12,732 | 12,668 |
| Equity in income (loss) of Provo River Water Users Association | 152,270 | (41,885) |
| Gain (loss) on sale of assets | 89,666 | (360,826) |
| Other income | 32,615 | 153,070 |
| TOTAL NON-OPERATING REVENUES - NET | <u>10,408,559</u> | <u>2,480,361</u> |
| Income (loss) before capital contributions | 4,542,391 | (438,479) |
| CAPITAL CONTRIBUTIONS | <u>950,000</u> | <u>1,020,000</u> |
| CHANGE IN NET ASSETS | 5,492,391 | 581,521 |
| Total net assets - beginning of year | <u>104,280,497</u> | <u>103,698,976</u> |
| Total net assets - end of year | <u><u>\$ 109,772,888</u></u> | <u><u>\$ 104,280,497</u></u> |

The accompanying notes are an integral part of the financial statements.

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
STATEMENTS OF CASH FLOWS
Years ended June 30, 2005 and 2004

| | <u>2005</u> | <u>2004</u> |
|---|-----------------------|-----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from water sales | \$ 8,025,675 | \$ 10,233,456 |
| Cash received from water treatment | 4,440 | 23,100 |
| Cash received from aqueduct rentals | 7,488 | 13,498 |
| Payments to vendors | (1,631,761) | (1,431,309) |
| Payments to employees | (2,520,551) | (2,409,688) |
| Employee benefits paid | (1,764,199) | (1,209,750) |
| Administrative expenses to PRWUA | (1,071,523) | (1,030,390) |
| Net cash flows from operating activities | <u>1,049,569</u> | <u>4,188,917</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Property taxes collected | 4,769,947 | 4,659,211 |
| Other revenues collected | 62,130 | 1,173,070 |
| Laboratory fees collected | 12,732 | 12,668 |
| Net cash flows from noncapital financing activities | <u>4,844,809</u> | <u>5,844,949</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Special assessment revenue | 6,489,937 | - |
| Principal paid on revenue bonds | (1,235,000) | (912,337) |
| Payments for acquisition and construction of capital assets | (76,287,345) | (28,129,359) |
| Interest paid on revenue bonds and aqueduct contract | (4,038,587) | (2,078,400) |
| Proceeds from the issuance of revenue bonds, net | 83,311,487 | 91,262,959 |
| Proceeds on sale of property and equipment | 201,913 | 8,225 |
| Cash received from grants for capital assets | 950,000 | - |
| Net cash flows from capital and related financing activities | <u>9,392,405</u> | <u>60,151,088</u> |
| Net cash flows from financing activities | <u>14,237,214</u> | <u>65,996,037</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest received on investments | 2,838,478 | 720,503 |
| Net cash flows from investing activities | <u>2,838,478</u> | <u>720,503</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | <u>18,125,261</u> | <u>70,905,457</u> |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | <u>108,532,032</u> | <u>37,626,575</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u>\$ 126,657,293</u> | <u>\$ 108,532,032</u> |
| CASH AND CASH EQUIVALENTS RECORDED IN THE ACCOMPANYING BALANCE SHEETS: | | |
| Unrestricted | \$ 14,776,979 | \$ 18,532,198 |
| Restricted | <u>111,880,314</u> | <u>89,999,834</u> |
| | <u>\$ 126,657,293</u> | <u>\$ 108,532,032</u> |

The accompanying notes are an integral part of the financial statements.

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
STATEMENTS OF CASH FLOWS (CONTINUED)
Years ended June 30, 2005 and 2004

**RECONCILIATION OF OPERATING INCOME (LOSS) TO
NET CASH PROVIDED BY OPERATING ACTIVITIES:**

| | | |
|--|---------------------|---------------------|
| Operating loss | \$ (5,866,168) | \$ (2,918,840) |
| Adjustments to reconcile net loss to net cash flows from operating activities: | | |
| Depreciation and amortization | 4,799,804 | 4,887,441 |
| Interest expense | - | 105,013 |
| (Increase) decrease in assets: | | |
| Accounts receivable | 469,688 | 216,727 |
| Miscellaneous receivable | (122,755) | - |
| Inventory | 5,860 | 4,335 |
| Prepaid expenses | 338,523 | (21,512) |
| Increase (decrease) in liabilities: | | |
| Accounts payable | (51,889) | 1,134,432 |
| Accrued expenses | 1,427,760 | 781,321 |
| Unearned income | 48,746 | - |
| Net cash flows from operating activities | <u>\$ 1,049,569</u> | <u>\$ 4,188,917</u> |

**NONCASH INVESTING, CAPITAL AND FINANCING
ACTIVITIES**

| | | |
|--|------------------------|--------------------|
| Equity in income (loss) of Provo Water Users Association | <u>\$ 61,501</u> | <u>\$ (41,885)</u> |
| Loss on sale of assets | <u>\$ 89,666</u> | <u>\$ 360,826</u> |
| Notes receivable from Sandy City | <u>\$ (16,442,767)</u> | <u>\$ -</u> |

The accompanying notes are an integral part of the financial statements.

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Metropolitan Water District of Salt Lake & Sandy (the "District") was organized under the Metropolitan Water District Act. The District is a separate legal entity, with a seven member board, five of which are appointed by Salt Lake City and two of which are appointed by Sandy City. Board members serve for a specified term and cannot be removed without cause. However, as the member cities are unable to impose their will and are not financially accountable for the District, the District is not reported as a component unit of the member cities. Substantially all of the water resources developed by the District are sold to Salt Lake City and Sandy City.

Basis of Presentation

The District is a governmental unit which is accounted for as a business type activity. The District follows accounting principles generally accepted in the United States of America applicable to a governmental entity, including pronouncements of the Governmental Accounting Standards Board ("GASB"). The District has elected not to follow all Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board ("APB") Opinions and Accounting Research Bulletins ("ARB"), issued after November 30, 1989, in accordance with GASB Statement No. 20. The records of the District are maintained on the accrual basis of accounting, with a measurement focus on net income determination and capital maintenance. Under this method, revenues are recorded when earned and expenses are recognized when they are incurred.

The District follows the provisions of GASB Statement No. 34, Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments, GASB Statement No. 37, Basic Financial Statements and Management's Discussion and Analysis — For State and Local Governments: Omnibus, and GASB Statement No. 38, Certain Financial Statement Disclosures. These statements require governmental entities to provide additional accrual-basis statements and schedules to better communicate the financial status of the governmental entity.

Cash and Cash Equivalents

Cash equivalents are highly liquid investments with maturities of three months or less when purchased.

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Accounts Receivable

Accounts receivable are generally comprised of receivables on water sales, which are expected to be paid by cities and other water districts. Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management does not expect any uncollectible amounts as all payments are from governmental entities.

Inventory

Inventory, consisting of chemicals for the purification of water and fuels are stated at the lower of cost (first-in, first-out method) or market value.

Capital Assets

Property and equipment are recorded at cost, less accumulated depreciation. Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the assets as follows:

| | |
|----------------------------|------------|
| Building and improvements | 5-50 years |
| Machinery and equipment | 3-20 years |
| Transportation equipment | 3-7 years |
| Furniture and fixtures | 3-20 years |
| Aqueduct and appurtenances | 5-75 years |

No deprecation is provided on construction in progress until the asset is placed in service.

Related Entity Notes Receivable

Notes receivable represent obligations from Sandy City for water rights purchased by the District and for purchase of rights of way for Highland Drive (as part of Point of the Mountain Aqueduct property transactions). The notes corresponding to debt service will be repaid over 26 years ending in 2031 and the notes corresponding to rights of way will be repaid over five years (see Note 7).

Bond Issue Costs, Bond Discounts, and Bond Premiums

Bond issue costs, bond discounts, and bond premiums are deferred and amortized or accreted over the life of the related bonds. Amortization or accretion is computed on the straight-line method, which approximates the effective interest method. Bond discounts and bond premiums are presented as a reduction or addition to the face amount of bonds payable, whereas, issuance costs are recorded as an asset.

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Capitalization of Interest Costs

The District capitalizes interest on borrowings which are used to finance construction. Capitalization of interest is net of interest earned on construction funds borrowed. Interest capitalization ceases when the construction project is substantially completed. Net interest capitalized was \$3,404,447 and \$712,349 and total interest cost was \$7,443,034 and \$3,385,991 for the years ended June 30, 2005 and 2004, respectively.

Deferred Charges

Costs of preliminary surveys and other investigations which are related to proposed construction are deferred and included in construction in progress until the projects are placed in service, at which time they are depreciated over their useful lives. The cost of discontinued projects is charged to expense in the year the decision is made to discontinue the project.

Deferred Revenue

Taxes assessed at the beginning of each calendar year are not received until the end of the calendar year, after the end of the fiscal year. The assessed revenue for the year is recorded as deferred revenue in accordance with GASB Statement No. 33.

Capital Contributions

In accordance with GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, capital contributions are recorded as revenues.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Classification of Revenue

- *Operating revenues* – Operating revenues include activities that have the characteristics of exchange transactions such as water sales revenue.

- *Non-operating revenues* – Non-operating revenues include activities that have the characteristics of non-exchange transactions and other revenue sources that are defined as non-operating revenues by GASB Statement No. 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting and GASB Statement No. 34. Examples of non-operating revenues would be property tax revenues, interest income, gain or loss on sale of assets, and equity earnings in Provo River Water Users Association.

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Property Tax Revenue

Property tax revenue is collected and remitted by the Salt Lake County Treasurer as an agent for the District.

Utah statutes establish the process by which taxes are levied and collected. Property taxes are assessed as of January 1 of the year in which they are due. September 1 is the levy date with a due date of November 30. Delinquent taxes are subject to a two percent penalty, with a \$10 minimum penalty. If delinquent taxes and penalties are not paid by January 15 of the following year, these delinquent taxes, including penalties, are subject to an interest charge at a rate equal to the federal discount rate; the interest period is from January 1 until the date paid. If in May of the fifth year, the taxes remain delinquent, the County advertises and sells the property at a tax sale.

GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, defines a nonexchange transaction as one in which "a government either gives value to another party without directly receiving equal value in exchange or receives value from another party without directly giving equal value in exchange." For property taxes, at January 1 of each year (the assessment date), the District has the legal right to collect the taxes, and in accordance with the provisions of the statement, has now recorded a receivable and a corresponding deferred revenue for the assessed amount of those property taxes as of January 1 which are not collected or used until the following fiscal year.

Water Sales Revenue

Revenue from water sales is recorded based on monthly usage at the stated wholesale water rate. Water usage is measured by flow meters located in the aqueducts.

Net Assets

The District's net assets are classified as follows:

- **Invested in capital assets, net of related debt** – This component of net assets consists of the District's total investment in capital assets, net of accumulated depreciation, reduced by the outstanding debt obligations related to those assets. To the extent debt has been incurred, but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.
- **Restricted for capital projects** – This component of net assets consists of that portion of net assets that is restricted by debt covenants to be expended for capital assets.

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets (continued)

- Restricted for debt service – This component of net assets consists of that portion of net assets that is restricted by debt covenants for debt service.
- Unrestricted – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

NOTE 2 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following at June 30, 2005 and 2004:

| | <u>2005</u> | <u>2004</u> |
|--|-----------------------|----------------------|
| Unrestricted: | | |
| Cash and cash equivalents: | | |
| Cash -- Net of outstanding checks | \$ 1,009,978 | \$ (78,251) |
| Repurchase agreements | 650,000 | 577,387 |
| Public Treasurers Investment Fund | <u>13,117,001</u> | <u>18,033,062</u> |
| Total unrestricted cash and cash equivalents | <u>\$ 14,776,979</u> | <u>\$ 18,532,198</u> |
| Restricted: | | |
| Cash and cash equivalents: | | |
| Public Treasurers Investment Fund | \$ 50,961,162 | \$ 87,535,670 |
| Collateralized money market account | <u>60,919,152</u> | <u>2,464,164</u> |
| Total restricted cash and cash equivalents | <u>\$ 111,880,314</u> | <u>\$ 89,999,834</u> |

Deposits – State law requires that the District follow the requirements of the Utah Money Management Act in its depositing and investment transactions. This law requires that the District’s funds be deposited in a “qualified” depository, defined as any financial institution which has been certified by the Utah State Commissioner of Financial Institutions.

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 2 - CASH AND CASH EQUIVALENTS (CONTINUED)

The District's bank deposits at June 30, 2005 and 2004 consisted of the following:

| | <u>2005</u> | <u>2004</u> |
|---|--------------|-------------|
| Book carrying amount | \$ 1,009,978 | \$ (78,251) |
| Bank balance - covered by federal depository insurance | \$ 150,000 | \$ 25,000 |

Certain of the District's assets are restricted by provisions of the revenue bond resolution and may only be invested in accordance with the provisions of the resolution. Cash may only be deposited in state or national banks meeting certain minimum net worth requirements or invested in securities representing direct obligations of/or obligations guaranteed by the United States Government.

Investments - The District's investments are categorized in the following table to give an indication of the level of risk assumed by the District at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in the District's name. As of June 30, 2005 and 2004, the District had no assets in Category 1 investments. The following is a summary of investments by category at June 30, 2005 and 2004:

| | <u>Category 2</u> | <u>Category 3</u> | <u>Reported Amount</u> | <u>Fair Value</u> |
|---|----------------------|-------------------|----------------------------|-----------------------|
| June 30, 2005: | | | | |
| Corporate bonds | \$ 8,930,310 | \$ 8,930,310 | \$ 8,924,221 | |
| US Obligations | 20,483,980 | 20,483,980 | 20,473,633 | |
| Mortgage backed securities | 31,504,863 | 31,504,863 | 31,515,942 | |
| | <u>\$ 60,919,153</u> | 60,919,153 | 60,913,796 | |
| Public Treasurers' Investment Fund (uncategorized) | | | <u>63,428,163</u> | <u>63,428,163</u> |
| Total | | | <u>\$ 124,347,316</u> | <u>\$ 124,341,959</u> |
| June 30, 2004: | | | | |
| Money market account | <u>\$ 2,464,164</u> | \$ 2,464,164 | \$ 2,464,164 | |
| Repurchase agreements | \$ 577,387 | 577,387 | 577,387 | |
| Public Treasurers' Investment Fund (uncategorized) | | | <u>105,568,732</u> | <u>105,568,732</u> |
| Total | | | <u>\$ 108,610,283</u> | <u>\$ 108,610,283</u> |

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 2 - CASH AND CASH EQUIVALENTS (CONTINUED)

Utah State law does not require investments to be insured, registered, or held in the District's name. However, investment policies are governed by state statutes. As of June 30, 2005 and 2004, approximately 46% and 97%, respectively, of the District's investments were held in the Utah Public Treasurers' Investment Fund ("PTIF"). The PTIF is an interest-bearing pooled investment fund managed by the Utah State Treasurer. The fair value of the position in the fund is the same as the value of the fund shares. Amounts on deposit may be withdrawn upon demand.

NOTE 3 - RESTRICTED CASH AND CASH EQUIVALENTS

Certain cash and cash equivalents are restricted by provisions of the bond resolutions adopted by the District (Note 6) as follows:

Amounts Restricted for Costs of Construction Projects – The 2002 Bond Resolution requires that a reserve be established for bond proceeds restricted to the related construction projects. Any excess funds shall be applied to the payment of principal and interest on the bonds when due.

Amounts Restricted for Revenue Bond Debt Service – On April 29, 2002, the District adopted a new bond resolution. The 2002 Water Revenue Bond Resolution ("2002 Bond Resolution") requires that a debt service account ("Bond Fund") be maintained that is equal to the principal and interest installment due within the fiscal year on the outstanding revenue bonds. The amounts at June 30, 2005 and 2004 were \$5,870,380 and \$2,464,164, respectively.

Amounts Restricted for Renewal and Replacement – The 2002 Bond Resolution requires that an initial renewal and replacement reserve of \$650,000 be established but the reserve may be increased or decreased from time to time by a supplemental resolution. In the event a deficiency arises in the amounts restricted for the Bond Fund, monies in the renewal and replacement reserve shall be transferred to satisfy the deficiency.

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 3 - RESTRICTED CASH AND CASH EQUIVALENTS (CONTINUED)

Restricted assets, including accrued interest receivable, consisted of the following (net assets have been reserved in the same amounts):

| | <u>2005</u> | <u>2004</u> |
|---|-----------------------|----------------------|
| Funds restricted by the 2002 Bond Resolution (Note 6): | | |
| Cost of construction projects (unspent bond proceeds) | \$ 105,359,934 | \$ 86,885,670 |
| Bond Fund | 5,870,380 | 2,464,164 |
| Renewal and Replacement Fund | <u>650,000</u> | <u>650,000</u> |
| Total restricted assets | <u>\$ 111,880,314</u> | <u>\$ 89,999,834</u> |

NOTE 4 - CAPITAL ASSETS

The changes in capital assets for the year ended June 30, 2005 are as follows:

| | <u>July 1, 2004</u> | <u>Additions / Transfers In</u> | <u>Disposals / Transfers Out</u> | <u>June 30, 2005</u> |
|---|-------------------------|-------------------------------------|--------------------------------------|--------------------------|
| Capital assets not depreciated: | | | | |
| Land and right of way | \$ 19,669,390 | \$ 106,926 | \$ (23,667) | \$ 19,752,649 |
| Construction in progress | <u>31,687,608</u> | <u>69,761,319</u> | <u>(4,844,427)</u> | <u>96,604,500</u> |
| Total capital assets not depreciated | 51,356,998 | 69,868,245 | (4,868,094) | 116,357,149 |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 33,435,003 | 2,525,940 | - | 35,960,943 |
| Machinery and equipment | 19,025,684 | 91,391 | - | 19,117,075 |
| Transportation equipment | 810,967 | 288,625 | (296,770) | 802,822 |
| Furniture and fixtures | 237,231 | - | - | 237,231 |
| Aqueduct and appurtenances | <u>61,453,305</u> | <u>2,264,520</u> | <u>-</u> | <u>63,717,825</u> |
| Total capital assets being depreciated | 114,962,190 | 5,170,476 | (296,770) | 119,835,896 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (9,530,052) | (1,871,888) | - | (11,401,940) |
| Machinery and equipment | (13,006,792) | (1,257,398) | - | (14,264,190) |
| Transportation equipment | (505,451) | (223,817) | 296,770 | (432,498) |
| Furniture and fixtures | (144,695) | (19,589) | - | (164,284) |
| Aqueduct and appurtenances | <u>(12,373,759)</u> | <u>(1,245,915)</u> | <u>-</u> | <u>(13,619,674)</u> |
| Total accumulated depreciation | <u>(35,560,749)</u> | <u>(4,618,607)</u> | <u>296,770</u> | <u>(39,882,586)</u> |
| Total capital assets, net | <u>\$ 130,758,439</u> | <u>\$ 70,420,114</u> | <u>\$ (4,868,094)</u> | <u>\$ 196,310,459</u> |

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 4 - CAPITAL ASSETS (CONTINUED)

The changes in capital assets for the year ended June 30, 2004 are as follows:

| | July 1, 2003 | Additions / Transfers In | Disposals / Transfers Out | June 30, 2004 |
|--|-----------------------|-----------------------------|------------------------------|-----------------------|
| Capital assets not depreciated: | | | | |
| Land and right of way | \$ 16,020,505 | \$ 3,648,885 | \$ - | \$ 19,669,390 |
| Construction in progress | <u>8,135,014</u> | <u>24,271,057</u> | <u>(718,463)</u> | <u>31,687,608</u> |
| Total capital assets not depreciated | 24,155,519 | 27,919,942 | (718,463) | 51,356,998 |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 33,048,437 | 420,417 | (33,851) | 33,435,003 |
| Machinery and equipment | 20,706,002 | 75,703 | (1,756,021) | 19,025,684 |
| Transportation equipment | 764,034 | 76,652 | (29,719) | 810,967 |
| Furniture and fixtures | 247,963 | 11,863 | (22,595) | 237,231 |
| Aqueduct and appurtenances | <u>61,159,467</u> | <u>342,138</u> | <u>(48,300)</u> | <u>61,453,305</u> |
| Total capital assets being depreciated | 115,925,903 | 926,773 | (1,890,486) | 114,962,190 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (7,539,265) | (2,011,742) | 20,955 | (9,530,052) |
| Machinery and equipment | (13,005,004) | (1,431,809) | 1,430,021 | (13,006,792) |
| Transportation equipment | (429,710) | (105,083) | 29,342 | (505,451) |
| Furniture and fixtures | (145,598) | (19,285) | 20,188 | (144,695) |
| Aqueduct and appurtenances | <u>(11,075,165)</u> | <u>(1,319,524)</u> | <u>20,930</u> | <u>(12,373,759)</u> |
| Total accumulated depreciation | <u>(32,194,742)</u> | <u>(4,887,443)</u> | <u>1,521,436</u> | <u>(35,560,749)</u> |
| Total capital assets, net | <u>\$ 107,886,680</u> | <u>\$ 23,959,272</u> | <u>\$ (1,087,513)</u> | <u>\$ 130,758,439</u> |

NOTE 5 - JOINT VENTURE

The Provo River Water Users Association (the "Association") is a water resources agency incorporated under Utah law with 110,000 shares of no-par value, assessable capital stock, 100,000 shares of which were outstanding during 2005 and 2004. Each share carries a pro rata right to the use of all water made available by the Association annually up to a limit of one acre foot per share of stock. The District holds 61,700 of the Association's shares. In accordance with governmental accounting standards, the joint venture has been accounted for using the equity method.

The District agreed to pay its proportionate share, based upon stock ownership of 61.7%, of the construction cost of the Deer Creek Division of the Provo River Project. The District has an obligation to pay \$2.85 per share (\$175,845 annually) towards the cost of this project.

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 5 - JOINT VENTURE (CONTINUED)

The District's share of the Association's obligation and its equity in repayments as of June 30, 2005 are summarized as follows:

| | <u>Total Association Obligation</u> | <u>District's Share</u> |
|--|--|------------------------------------|
| Original contract | \$ 11,400,000 | \$ 7,033,800 |
| Less payments and other charges applied in payment | <u>4,718,294</u> | <u>2,911,184</u> |
| Balance on original contract | 6,681,706 | 4,122,616 |
| Less current maturities | <u>285,000</u> | <u>175,845</u> |
| Long-term obligation | <u><u>\$ 6,396,706</u></u> | <u><u>\$ 3,946,771</u></u> |

The District's investment in the Association as of June 30, 2005 and 2004 is summarized as follows:

| | <u>2005</u> | <u>2004</u> |
|--|-----------------------------|-----------------------------|
| District's share of Deer Creek Division: | | |
| Original contract | \$ 7,033,800 | \$ 7,033,800 |
| Excess costs | <u>7,436,248</u> | <u>7,436,248</u> |
| Total | 14,470,048 | 14,470,048 |
| District's interest in the Association's retained earnings | 3,892,128 | 3,830,627 |
| Costs associated with acquisition of additional stock of the Association from the distributing Company | 94,058 | 94,058 |
| Cost of sanitation facilities constructed at Deer Creek Reservoir | 25,625 | 25,625 |
| District's share in cost of lining Provo Reservoir Canal | <u>98,277</u> | <u>98,277</u> |
| Total | <u><u>\$ 18,580,136</u></u> | <u><u>\$ 18,518,635</u></u> |

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 5 - JOINT VENTURE (CONTINUED)

Summary financial information for the Association as of October 31, 2004 and 2003, the most recent audited financial statements available, and for its fiscal year then ended is presented as follows:

| | <u>2004</u> | <u>2003</u> |
|--|----------------------|----------------------|
| Cash and investments | \$ 1,135,767 | \$ 1,118,667 |
| Other assets, principally water rights | <u>30,929,917</u> | <u>30,985,045</u> |
| Total assets | <u>\$ 32,065,684</u> | <u>\$ 32,103,712</u> |
| Total liabilities | \$ 9,103,544 | \$ 9,535,256 |
| Total equity | <u>22,962,140</u> | <u>22,568,456</u> |
| Total liabilities and equity | <u>\$ 32,065,684</u> | <u>\$ 32,103,712</u> |
| Total revenues | \$ 2,454,896 | \$ 2,474,999 |
| Total expenses | <u>2,430,639</u> | <u>2,338,041</u> |
| Net income | <u>\$ 24,257</u> | <u>\$ 136,958</u> |
| District's share | <u>\$ 14,967</u> | <u>\$ 84,503</u> |

The District's equity in the Association's net income (loss) for the period from June 30, 2004 to October 31, 2004 was \$50,586 and for the period from June 30, 2003 to October 31, 2003 was \$(6,266). The District's equity in the Association's unaudited net income (loss) for the period November 1, 2004 to June 30, 2005 was \$401,800 and for the period November 1, 2003 to June 30, 2004 was \$(35,619).

The Associations complete financial report can be obtained by contacting their offices directly located at 285 West 1100 North, Pleasant Grove, UT 84062.

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 6 - REVENUE BONDS PAYABLE

The following is a summary of the changes in revenue bonds payable for the year ended June 30, 2005:

| | <u>July 1, 2004</u> | <u>Additions</u> | <u>Reductions</u> | <u>June 30, 2005</u> | <u>Current Maturities</u> |
|--|-----------------------|----------------------|-----------------------|-----------------------|---------------------------|
| 2002B Series water revenue refunding bonds, 4.00% to 5.25%, maturing in annual installments through 2024 | \$ 19,990,000 | \$ - | \$ (665,000) | \$ 19,325,000 | \$ 685,000 |
| A-4 Series water revenue refunding bonds, variable interest at a weekly rate (2.28% and 1.05% at June 30, 2005 and 2004, respectively), maturing in annual installments through 2030 | 12,100,000 | - | - | 12,100,000 | - |
| A-3 Series water revenue refunding bonds, variable interest at a weekly rate (2.28% and 1.05% at June 30, 2005 and 2004, respectively), maturing in annual installments through 2024 | 5,700,000 | - | (200,000) | 5,500,000 | 200,000 |
| 2003A Series water revenue bonds, 2.50% to 5.25%, maturing in annual installments through 2020 | 8,000,000 | - | (370,000) | 7,630,000 | 385,000 |
| A-8 Series water revenue bonds, variable interest at a weekly rate (3.09% and 4.5% at June 30, 2005 and 2004, respectively), maturing in annual installments through 2032 | 12,000,000 | - | - | 12,000,000 | - |
| 2004 Series water revenue bonds, 2.25% to 5% maturing in annual installments through 2024 | 42,700,000 | - | - | 42,700,000 | 1,590,000 |
| A-9 Series program revenue bonds, variable interest at a weekly rate (2.28% and 1.05% at June 30, 2005 and 2004, respectively), maturing in annual installments through 2035 | 47,300,000 | - | - | 47,300,000 | - |
| 2005A Series water revenue bonds, 3% to 5% maturing in annual installments through 2025 | - | 44,650,000 | - | 44,650,000 | - |
| A-11 Series program revenue bonds, variable interest at a weekly rate (2.28% and 1.05% at June 30, 2005 and 2004, respectively), maturing in annual installments through 2032 | - | 37,100,000 | - | 37,100,000 | - |
| Total | 147,790,000 | 81,750,000 | (1,235,000) | 228,305,000 | \$ 2,860,000 |
| Plus unamortized premium | 3,223,729 | 2,921,382 | (172,412) | 5,972,698 | |
| Total bonds | <u>\$ 151,013,729</u> | <u>\$ 84,671,382</u> | <u>\$ (1,407,412)</u> | <u>\$ 234,277,698</u> | |

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 6 - REVENUE BONDS PAYABLE (CONTINUED)

The following is a summary of the changes in revenue bonds payable for the year ended June 30, 2004:

| | <u>July 1, 2003</u> | <u>Additions</u> | <u>Reductions</u> | <u>June 30, 2004</u> | <u>Current Maturities</u> |
|--|---------------------|------------------|-------------------|----------------------|---------------------------|
| 2002B Series water revenue refunding bonds, 4.00% to 5.25%, maturing in annual installments through 2024 | \$ 20,515,000 | \$ - | \$ (525,000) | \$ 19,990,000 | \$ 665,000 |
| A-4 Series water revenue refunding bonds, variable interest at a weekly rate (1.05% and 1.07% at June 30, 2004 and 2003, respectively), maturing in annual installments through 2030 | 12,100,000 | - | - | 12,100,000 | - |
| A-3 Series water revenue refunding bonds, variable interest at a weekly rate (1.05% and 1.07% at June 30, 2004 and 2003, respectively), maturing in annual installments through 2024 | 5,900,000 | - | (200,000) | 5,700,000 | 200,000 |
| 2003A Series water revenue bonds, 2.50% to 5.25%, maturing in annual installments through 2020 | 8,000,000 | - | - | 8,000,000 | 370,000 |
| A-8 Series water revenue bonds, variable interest at a weekly rate (4.5% and 1.08% at June 30, 2004 and 2003, respectively), maturing in annual installments through 2032 | 12,000,000 | - | - | 12,000,000 | - |
| 2004 Series water revenue bonds, 2.25% to 5% maturing in annual installments through 2024 | - | 42,700,000 | - | 42,700,000 | - |
| A-9 Series program revenue bonds, variable interest at a weekly rate (1.05% at June 30, 2004), maturing in annual installments through 2035 | - | 47,300,000 | - | 47,300,000 | - |
| Total | 58,515,000 | 90,000,000 | (725,000) | 147,790,000 | \$ 1,235,000 |
| Plus unamortized premium | 547,070 | 2,747,545 | (70,886) | 3,223,729 | |
| Total bonds | \$ 59,062,070 | \$ 92,747,545 | \$ (795,886) | \$ 151,013,729 | |

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 6 - REVENUE BONDS PAYABLE (CONTINUED)

Maturities of the revenue bonds for the years ending June 30 are as follows:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------|-----------------------|-----------------------|-----------------------|
| 2006 | \$ 2,860,000 | \$ 10,257,590 | \$ 13,117,590 |
| 2007 | 3,590,000 | 10,303,394 | 13,893,394 |
| 2008 | 3,320,000 | 10,168,056 | 13,488,056 |
| 2009 | 3,425,000 | 10,002,093 | 13,427,093 |
| 2010 | 3,765,000 | 9,867,630 | 13,632,630 |
| 2011-2015 | 27,365,000 | 45,605,348 | 72,970,348 |
| 2016-2020 | 38,095,000 | 36,838,909 | 74,933,909 |
| 2021-2025 | 47,815,000 | 26,359,357 | 74,174,357 |
| 2026-2030 | 59,370,000 | 14,741,650 | 74,111,650 |
| 2031-2035 | 38,700,000 | 3,514,240 | 42,214,240 |
| | <u>\$ 228,305,000</u> | <u>\$ 177,658,267</u> | <u>\$ 405,963,267</u> |

Variable Interest Rate – As of June 30, 2005, the variable interest rate on the Series A-4 Program Revenue Bonds, the Series A-8 Program Revenue Bonds, the Series A-9 Program Revenue Bonds, and the Series A-11 Program Revenue Bonds was set at the weekly rate as defined in the official bond statement. The interest rate determination method for the bonds can be changed by the District to a daily rate, a commercial paper rate, or a long-term interest rate (all of which are defined in the official bond statement). The effective date of any change shall be the first day of the first interest period during which the bonds of such series shall bear interest at a rate determined by the new method.

Interest Rate Contracts – As of June 30, 2005, Utah Water Finance Agency had entered into fixed pay swaps of interest rate contracts for the benefit of the District to manage interest rate risk on the A-4 Series Program Revenue Bonds, the A-8 Series Program Revenue Bonds, the A-9 Series Program Revenue Bonds, and the A-11 Series Program Revenue Bonds as indicated below:

- Series A-4 Bonds, \$12,100,000 notional amount, fixed pay rate 4.32%, maturing July 1, 2030.
- Series A-8 Bonds, \$12,000,000 notional amount, fixed pay rate 4.50%, maturing July 1, 2032.
- Series A-9 Bonds, \$23,100,000 notional amount, fixed pay rate 4.163%, maturing July 1, 2035.
- Series A-11 Bonds, \$37,100,000 notional amount, fixed pay rate 4.225% maturing July 1, 2032.

Under these interest rate swaps, the District agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and variable-rate interest amounts to the agreed notional principal amount. The effect of these interest rate swaps is to reduce the District's exposure to rising interest rates.

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 6 - REVENUE BONDS PAYABLE (CONTINUED)

Fair Value – Because interest rates have changed since the execution of the swaps, the swaps related to the Series A-4 Bonds, Series A-8 Bonds, Series A-9 Bonds, and the Series A-11 Bonds had positive fair values of \$605,924, \$1,584,099, \$2,137,049, and \$3,821,753, respectively, as of June 30, 2005.

Credit risk – The District currently utilizes letters of credit for the Series A-4 Bonds, Series A-8 Bonds and a portion of the Series A-9 Bonds from JP Morgan Bank. The letters of credit expire in March 2007.

Basis risk – There is no basis risk associated with the swaps.

Termination risk – The District or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. Also, if at the time of termination the swap has a negative fair value, the District would be liable to the counterparty for a payment equal to the swap's fair value.

Swap Payments and Associated Debt – Using rates as of June 30, 2005, debt service requirements of the Series A-4 Bonds, Series A-8 Bonds, Series A-9 Bonds, and Series A-11 Bonds and net swap payments, assuming current interest rates remain the same, are shown in the table below. As rates vary, variable-rate bond interest payments and net swap payments will vary.

| | Principal | Interest | Interest Rate Swaps, Net | Total |
|-----------|-----------------------|-----------------------|-----------------------------|-----------------------|
| 2006 | \$ - | \$ 4,599,294 | \$ 1,886,394 | \$ 6,485,688 |
| 2007 | - | 4,599,294 | 1,886,394 | 6,485,688 |
| 2008 | - | 4,599,294 | 1,886,394 | 6,485,688 |
| 2009 | - | 4,599,294 | 1,886,394 | 6,485,688 |
| 2010 | - | 4,599,294 | 1,886,394 | 6,485,688 |
| 2011-2015 | - | 22,996,470 | 9,431,972 | 32,428,442 |
| 2016-2020 | 700,000 | 22,964,970 | 9,431,972 | 32,396,942 |
| 2021-2025 | 9,730,000 | 22,048,899 | 9,431,972 | 31,480,871 |
| 2026-2030 | 59,370,000 | 13,431,806 | 9,167,907 | 22,599,713 |
| 2031-2035 | 38,700,000 | 2,411,666 | 3,269,271 | 5,680,937 |
| | <u>\$ 108,500,000</u> | <u>\$ 106,850,281</u> | <u>\$ 50,165,064</u> | <u>\$ 157,015,345</u> |

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 6 - REVENUE BONDS PAYABLE (CONTINUED)

The following are selected provisions of the 2002 Bond Resolution:

Optional Redemption and Redemption Prices – The series 2002B bonds maturing on or after July 1, 2013, are subject to redemption prior to maturity at the option of the District on or after July 1, 2012, in whole or in part at any time, from such maturities or parts thereof as shall be selected by the District, at a redemption price of 100% of the principal amount of the Series 2002B bonds or portions thereof to be redeemed, plus accrued interest to the redemption date.

Pledge of the 2002 Bond Resolution – The 2002 Bond Resolution provides that the bonds shall be special obligations of the District payable solely from and secured by (i) the proceeds of sale of the Bonds, (ii) the revenues, and (iii) all funds (other than the operation and maintenance fund and the rebate fund), including the investments, if any, thereof, subject to any required rebate of all or a portion of the earnings on such investments to the United States of America.

Funds Required by the 2002 Bond Resolution – The 2002 Bond Resolution requires that certain funds be established to account for the District's receipts and disbursements. Such funds are accounts within the District's records and are not separate funds or groups of self-balancing accounts. The amounts held in these funds are to be used for the purposes stipulated in the 2002 Bond Resolution.

NOTE 7 - NOTES RECEIVABLE – SANDY

The District entered into two agreements with Sandy City for projects which will be funded in part by the issuance of the Series 2005 water revenue bonds and the Series A-4 program revenue bonds. The agreements provide for special assessment charges to Sandy City to help pay for the costs of the projects. In addition Sandy City agreed to make payments for a portion of the debt service on the bonds referred to above. The total notes receivable from Sandy City as of June 30, 2005 is \$16,442,767, including the current portion of \$475,282.

NOTE 8 - RETIREMENT PLANS

Plan Description – The District contributes to the Local Government Noncontributory Retirement System, which is a cost-sharing multiple-employer defined benefit pension plan administered by the Utah Retirement Systems ("URS"). URS provides retirement benefits, annual cost of living allowances and death benefits and refunds to plan members and beneficiaries in accordance with retirement statutes established and amended by the State legislature.

URS is established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 ("Chapter 49") as amended, which also establishes the Utah State Retirement Office ("Office") for the administration of URS and Plans. Chapter 49 places URS, the Office, and related plans and programs under direction of the Utah State Retirement Board ("Board") whose members are appointed by the Governor.

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 8 - RETIREMENT PLANS (CONTINUED)

Plan Description (continued)

URS issues a publicly available financial report that includes financial statements and required supplementary information for URS and Plans. A copy of the report may be obtained by writing to the Utah Retirement System, 540 East 200 South, Salt Lake City, UT 84012 or by calling 1-800-365-8772.

The District offers its full-time employees participation in a defined contribution plan created in accordance with Internal Revenue Code Section 401(k) (the "401(k) Plan"). The 401(k) Plan is administered by URS. Employees may contribute from 1% to 100% of their annual salary up to a maximum of \$14,000 and \$13,000 for 2005 and 2004, respectively. Through May 1, 1998, the District contributed 1.18% of the covered payroll of employees who also participate in the noncontributory retirement plan. After May 1, 1998, the District contributed 50% of the first 6% contributed by the employee, up to a maximum of 3% of the covered payroll of employees who also participate in the noncontributory retirement plan. During 2005 and 2004, all participants in the 401(k) Plan also participated in the noncontributory defined benefit plan of the system (Note 8). The District is not legally obligated to contribute and any contribution made is at the discretion of the Board of Trustees. All employee and District contributions are fully vested at all times.

Contributions made by employees to the 401(k) Plan were \$144,190, \$130,161 and \$123,840 for the years ended June 30, 2005, 2004, and 2003, respectively. Contributions made by the District to the 401(k) Plan were \$226,188, \$175,100 and \$193,879 for the years ended June 30, 2005, 2004, and 2003, respectively.

Funding Policy – The District was required to contribute 11.09% and 9.62% for the years ended June 30, 2005 and 2004, respectively, of annual covered salary to the Local Government Noncontributory Retirement System. The contribution rates are the actuarially determined rates and are approved by the Board as authorized by Chapter 49.

The District contributions to the Local Government Noncontributory Retirement System for the years ended June 30, 2005, 2004, and 2003 were \$302,743, \$247,203 and \$202,292, respectively. The contributions were equal to the required contributions for each year.

Loans or Notes between the District and the Retirement Systems – No securities, loans, or notes of the District are included in the assets of the Utah Retirement Systems.

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 9 - DEFERRED COMPENSATION PLANS

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 (the 457 Plan). The 457 Plan, administered by the Utah Retirement Systems and available to all District employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees or their beneficiaries until termination, retirement, death, or unforeseeable emergency.

Contributions made by employees to the 457 plan were \$32,050 and \$33,840 for the years ended June 30, 2005 and 2004, respectively. Contributions made by the District to the 457 plan were \$2,340 and \$20,023 for the years ended June 30, 2005 and 2004, respectively.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

The District is contingently liable for an amount equal to 35% of its direct liability on the original contract with the Association for costs incurred on the Deer Creek Division of the Provo River Project if other subscribers default. The maximum contingent liability amounted to approximately \$2,461,830 at June 30, 2005 and 2004.

There are pending lawsuits in which the District is involved arising from the normal course of business. Management does not expect potential claims resulting from such litigation to be significant to the District.

WISAN, SMITH, RACKER & PRESCOTT LLP

CERTIFIED PUBLIC ACCOUNTANTS

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Metropolitan Water District of Salt Lake & Sandy

We have audited the basic financial statements of the Metropolitan Water District of Salt Lake & Sandy (the District), as of and for the year ended June 30, 2005, and have issued our report thereon dated August 22, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, and the Utah State Auditor's Office and is not intended to be and should not be used by anyone other than these specified parties.

Wisan Smith Racker & Prescott, LLP

Salt Lake City, Utah
August 22, 2005

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WISAN, SMITH, RACKER & PRESCOTT^{LLP}

CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT AUDITOR ON STATE OF UTAH LEGAL COMPLIANCE

Board of Trustees
Metropolitan Water District of Salt Lake & Sandy

We have audited the basic financial statements of the Metropolitan Water District of Salt Lake & Sandy (the District), as of and for the year ended June 30, 2005, and have issued our report thereon dated August 22, 2005. Our audit included testwork on the District's compliance with the following general compliance requirements identified in the State of Utah Legal Compliance Audit Guide:

- Public Debt
- Cash Management
- Purchasing Requirements
- Budgetary Compliance
- Special Districts
- Other General Issues

The District received the following major assistance programs from the State of Utah:

- Credit Enhancement Grant (Division of Water Resources)

The management of the District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, the District complied, in all material respects, with the general compliance requirements identified above for the year ended June 30, 2005.

Wisan Smith Racker & Prescott, LLP

Salt Lake City, Utah
August 22, 2005

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